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# SINGAPORE IN 2004

## *Long-Awaited Leadership Transition*

===== Garry Rodan  
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### Abstract

With strong economic recovery, Goh Chok Tong decided the time was right for the long-anticipated handover of Singapore's prime ministership to Lee Hsien Loong. In foreign relations, the earlier leadership change in Malaysia fostered improved bilateral ties, but a visit by Lee to Taiwan generated friction with Chinese authorities.

### Politics

After years of speculation about the timing and terms of Prime Minister Goh Chok Tong's resignation, on August 12, 2004, Lee Hsien Loong was sworn in as the third prime minister in Singapore's 39 years of independence. The 52-year-old son of Lee Kuan Yew served a 14-year apprenticeship as deputy prime minister as Goh defied early expectations that he would be merely a "seat warmer" in an ultimately dynastic transfer of power from father to son. Pivotal to Singapore's economic policy during that period, Lee now has the opportunity to exert a more pervasive influence on national development.

Exactly what that influence might be was the focus of extensive media speculation in 2004, with Lee and his image-makers working hard to dispel popular perceptions that he represents a reversion to a more overtly authoritarian style of politics. Lee redoubled efforts to project himself as committed to Goh's "kinder and gentler" style of government, starting with a speech to Singapore's Harvard Club in January in which he declared that he had "no doubt that our society must open up further." His swearing-in and maiden National Day Rally speeches in August amplified on this rhetoric. Lee announced that

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licenses would no longer be needed for indoor talks or for performances and exhibitions at Speakers' Corner. Under the Public Entertainment and Meetings Act, any lecture, talk, address, debate, or discussion held within any enclosed space required a license. However, oppositionists criticized this as a move to ensure the continued confinement of political expression to marginal spaces.

Popular depictions of Lee junior as more authoritarian than Goh have missed an important development in Singapore's politics: the increasing sophistication of the authoritarian regime under Goh. Mechanisms of political cooptation for the ruling People's Action Party (PAP) have expanded, and official ideology rationalizing de facto one-party rule has been refined. Meanwhile, under Goh, suppression of critics and political opponents trying to operate outside PAP-controlled institutions has continued. In a similar vein, Lee warned in the Harvard Club speech that "criticism that scores political points and undermines the government's standing" would not be tolerated and neither would "crusading journalism." This was no idle threat. In his first month as prime minister, Lee extracted a published apology and a S\$ 210,000 (US\$125,000) out-of-court settlement from the *Economist*. This was in response to an allegedly defamatory article in the August 14 edition that commented on the appointment of Lee junior's wife, Ho Ching, as executive director of Temasek Holdings, the government's investment arm, where she presides over more than S\$ 180 billion (\$107 billion) in assets and an investment portfolio of around S\$ 90 billion (\$53 billion).<sup>1</sup>

In appointing his first cabinet, Lee expanded it to a record 20 posts, also promoting nine acting ministers or established ministers. Reshuffles included former Trade and Industry Minister George Yeo, taking over the foreign affairs portfolio from S. Jayakumar, who will continue to exert influence as chair of a new cabinet committee on foreign policy matters that cuts across various ministries. If there was any surprise in the new cabinet, it was that no third-generation leader was made a deputy prime minister.

Consolidation of power among established leaders is most evident in the retention of Goh and Lee senior within the cabinet. Goh now occupies the position of senior minister, a post created in 1990 for Lee Kuan Yew so that he could step aside as prime minister but still formally influence the cabinet. By following this precedent, Goh's appointment effectively institutionalizes the arrangement. No less significantly, Lee junior has surrendered his chairmanship of the Monetary Authority of Singapore (MAS)—the city-state's de facto central bank—by passing this responsibility on to Goh. Crucially, Lee junior also retains his position as finance minister, a first such double role for a Singapore prime minister.

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1. Hasan Jafri, "Temasek Pulls Off Mask from a 30-Year Record," *Asian Wall Street Journal*, October 13, 2004, p. A1.

Lee Hsien Loong also gave his father the new advisory cabinet post of “minister mentor.” The broad brief formalizes a role that Lee Kuan Yew, in any case, was expected to play. As Lee senior showed when he intervened in a Singapore Airlines industrial dispute, he has no intention of taking a back seat on issues that concern him. In that instance, local pilots had voted out their entire union leadership after it backed airline management’s proposed pay cuts and layoffs. Lee met with members of the Airline Pilots’ Association of Singapore (Alpa-S) in February 2004 and threatened, “You play this game, there are going to be broken heads.”<sup>2</sup> A week later, Captain Ryan Goh Yew Hock, whom Lee claimed instigated the campaign against the previous union executive, had his 26-year permanent residence status revoked.

During the year, the government revoked a public sector ban on the employment of homosexuals, lifted a ban on *Cosmopolitan* magazine, and allowed a censored version of the television series *Sex and the City* to be broadcast. However, social conservatism still prevailed, alongside a heavily state-funded strategy to promote Singapore as a regional arts center. The 17th Singapore International Film Festival, like its predecessors, was beset by censorship controversies. Taiwan’s highest-grossing film for this year, *Formula 17*, was rejected by Singapore’s Films Appeals Committee on the ground that it allegedly “creates the illusion of a homosexual utopia.” A documentary on Tibet, *Destiny’s Children*, was also dropped from the program without explanation. However, the festival did include a 12-minute musical, *Cut*, by Royston Tan. It parodied Singapore’s censors in the wake of 27 cuts they made to his acclaimed 2003 feature-length debut, *15*, which examined drug use, gangs, and alienation among Singapore’s teenagers. Arts Minister Lee Boon Yang was unimpressed, stating, “I don’t appreciate such unbecoming attempts to undermine the standing of a public institution.”

## Economy

Singapore’s economic fortunes experienced a radical turnaround in 2004, after the impact of Severe Acute Respiratory Syndrome (SARS) kept 2003 gross domestic product growth to just 1.1%. Having initially predicted annual growth at 3%–5% for 2004, the government twice upgraded the projection, ultimately to 8%–9%. Despite a slowdown for the third quarter, the government remained confident about this range. The recovery was broad-based and driven in significant part by demand emanating from U.S. and China. This particularly benefited Singapore’s electronics manufacturing sector on which the city-state has long been heavily dependent.

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2. “A New Year, New Spring—and Some Spring Cleaning,” *Straits Times Interactive*, March 5, 2004, <<http://straitstimes.asia1.com.sg/columnist/10,1886,16-228473-00.html>>.

Since Singapore's deep recession in 2001 in the wake of a global drop in demand for electronics products, measures have been taken to cut domestic production costs and increase offshore investment, so that the impact of future downturns is less severe. The investment measure focused on government-linked-companies (GLCs) that are in the forefront of regional expansion in the service sectors, notably telecommunications, banking, and utilities. Temasek has poured US\$1.5 billion into overseas ventures in the last two years alone, including acquisitions in China, India, Thailand, South Korea, Indonesia, and Malaysia. Singapore companies now derive 42% of their profits from offshore, up significantly from 20% in 1997. Within the manufacturing sector, there has also been some diversification. While electronics accounted for 49.7% of manufacturing output in 1997, its share had fallen to 39% in 2003.<sup>3</sup> Meanwhile, biomedical and chemicals have shown strong growth.

The challenges facing Prime Minister Lee and his team in economic restructuring nevertheless remain considerable. Progressive opening up to the forces of global competition is being manifested in rising social inequality and structural unemployment in Singapore. Despite high economic growth, the unemployment rate was remarkably steady throughout 2004, hovering around 4.5%. The last time Singapore experienced growth approaching double digits was in the first half of 2000; this resulted in 43,300 new jobs. Yet, in the first half of 2004, only 24,100 new jobs were created. Increasing competition from emerging markets in China and India is likely to intensify pressure on traditional manufacturing and low-skill jobs, hitting Singapore's older workers hardest.

Singapore's leaders seized on the cushion of the 2004 economic upturn to accelerate restructuring. GLCs again led the way, much to the consternation of many employees and officials within the PAP-affiliated National Trades Union Congress (NTUC). The government pushed ahead with its agenda to link wage levels more directly to productivity and market forces. Recognizing the contentious nature of the process, NTUC Secretary-General Lim Boon Heng called for a new compact between employers and employees to ensure that these issues are successfully managed. He argued that employers need to accept greater responsibility for boosting employee skill levels to cope with the changing economy, in return for which workers must begin accepting wage flexibility and productivity-based measures.

Pressure to find new domestic growth opportunities to compensate for the declining traditional manufacturing base was a factor in the government's controversial consideration during the year to establish a casino, a matter on which no decision has been announced. Singaporeans annually spend around US\$180 million in Malaysia's casinos, US\$140 million in Indonesia's Batam

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3. Cris Prystay, "A Safer Spread," *Far Eastern Economic Review*, August 26, 2004, p. 46.

Island casinos, and a further US\$400 million on casino cruises in the region. According to one estimate, a casino in Singapore could create as many as 1,000 jobs. In response to criticism from local religious leaders and others concerned about the social consequences of a casino in Singapore, Prime Minister Lee declared that “[w]e are going to propose the following restrictions: Singaporeans below a certain income, you can’t go.”

### Foreign Relations

The replacement in Malaysia of Mahathir Mohamad by Abdullah Badawi as prime minister in 2003 started to bear fruit for Singapore’s foreign relations in 2004. A more positive atmosphere developed between leaders of the countries, which have seen a range of diplomatic spats in recent years. Issues such as use of Malaysian airspace by Singaporean military aircraft, the price of raw water supplied by Malaysia to the city-state, and a prospective new bridge linking the countries have been persistent controversies. So too has the train station at Tanjong Pagar in Singapore’s city center, which is still officially part of Malaysian territory as a legacy of British colonial rule. Symbolically, a sign reading “Welcome to Malaysia” was removed from the station in August by the Malaysians.

The most concrete demonstration of a thaw in the bilateral relationship in 2004 was in investment. Malaysia approved two major Temasek deals in the politically sensitive banking and telecoms industries. In March, Temasek paid RM 1.6 billion (US\$421.1 million) for a 5% stake in Telekom Malaysia. Then, in July, at a cost of RM 474 million (US\$124.7 million), Temasek bought a 15.4% stake in Malaysian Plantations, which owns Alliance Bank. The sale of the telecommunications stake is especially significant. In May 2000, Mahathir had rejected an RM 2.2 billion (US\$578.9 million) offer from Temasek-controlled Singapore Telecommunications for a stake in a Malaysian telecommunications company, Timedotcom, on “security grounds.”

However, it was not all positive on the foreign relations front. On the eve of Lee Hsien Loong’s elevation, his trip to Taiwan ignited a controversy with Chinese officials, who viewed it as an affront to their “One China” policy. To register China’s annoyance, central bank chief Zhou Xiaochuan canceled a visit to Singapore for a central bankers’ meeting. Subsequently, plans were frozen for 126 Chinese officials to study managerial economics and public administration at Singapore’s Nanyang Technological University.

Lee spared no effort in trying to reassure the Chinese, even devoting a section of his National Day Rally speech to criticizing the direction of politics in Taiwan and asserting, “If Taiwan goes for independence, Singapore will not recognize it. In fact, no Asian country will recognize it. Win or lose, Taiwan will be devastated.” This was followed by Foreign Minister George Yeo’s

speech at the United Nations in September in which he further opposed Taiwan's independence. The speech incurred the wrath of Taiwan Foreign Minister Mark Chen. In a colorful denunciation in Hokkien Chinese of what he saw as Singapore's fawning to China, he contended that Singapore was "holding China's testicles in its hands" (*Pho Tiong-kok e Lan-pha*).<sup>4</sup>

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4. Quoted in Catherine Armitage, "Taiwan Talks Peace but Waves a Snotty Rag at China's Rhino," *Australian*, October 4, 2004, p. 16.